

the

light report

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The Periscope: Impact of Natural Gas Prices on City Light

Although natural-gas generation accounts for only about 6 percent of Seattle City Light's total resources, the price of natural gas can have a far-reaching effect on the utility. The price of natural gas is a key driver of the price of wholesale electricity – every dollar increase in the price of natural gas increases electricity prices by about \$10, and that can be good for City Light with its new resource plan that gives it lots of surplus energy to sell, even under drought conditions.

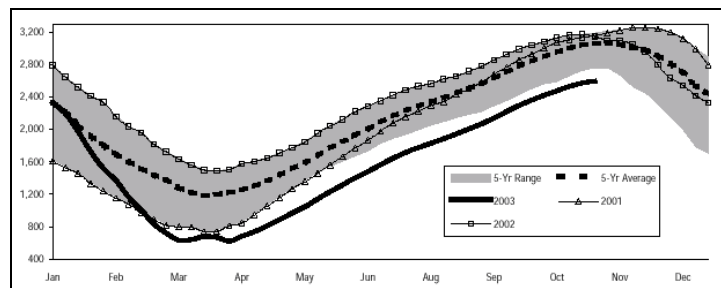
In fact, natural gas prices can actually overshadow water conditions in terms of their effect on City Light's revenue. This year could prove to be a good example of that, with strong natural gas prices helping to offset the effects of a poor water year. Even in this relatively poor water year, we are projecting surplus sales of \$120-\$130 million.

The price of natural gas is relatively high right now, at about \$5 per million British Thermal Units (BTUs), mainly because the nation's natural gas reserves are low – about 10 percent below the previous all-time low for this time of year. Most observers believe that reserves will remain low for the next 18 months to two years.



City Light has been operating its Ross facility differently this year due to lower-than-normal snowpack and precipitation (see charts on page 2). In anticipation of lower runoffs, we held additional water back to ensure sufficient power to meet Seattle's needs. With the improved water and market conditions of recent weeks, this will allow us to enjoy greater-than-anticipated surplus sales.

Nationwide, forecasters are predicting a cool summer and, therefore, a decline in demand for natural gas. But higher-than-normal temperatures are predicted in the West this summer, with a corresponding spike in natural gas prices to more than \$6 per million BTUs in Western markets.

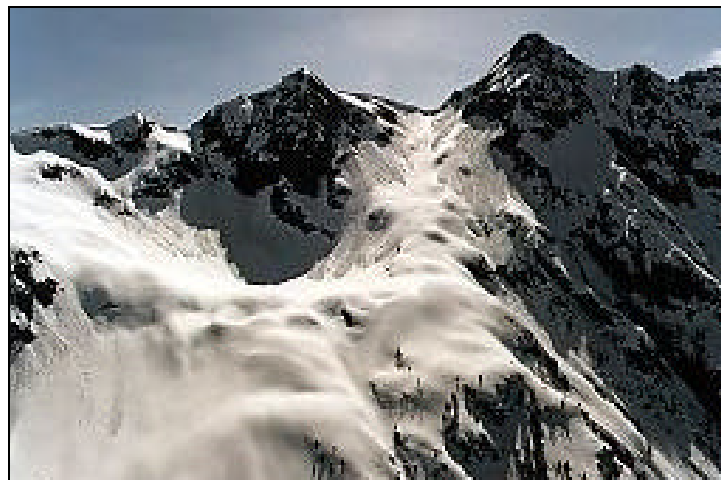


This chart compares current US natural gas reserves with historic data. Lower supplies are driving up gas prices, and hence electricity prices.

A closing note about our hydropower situation:

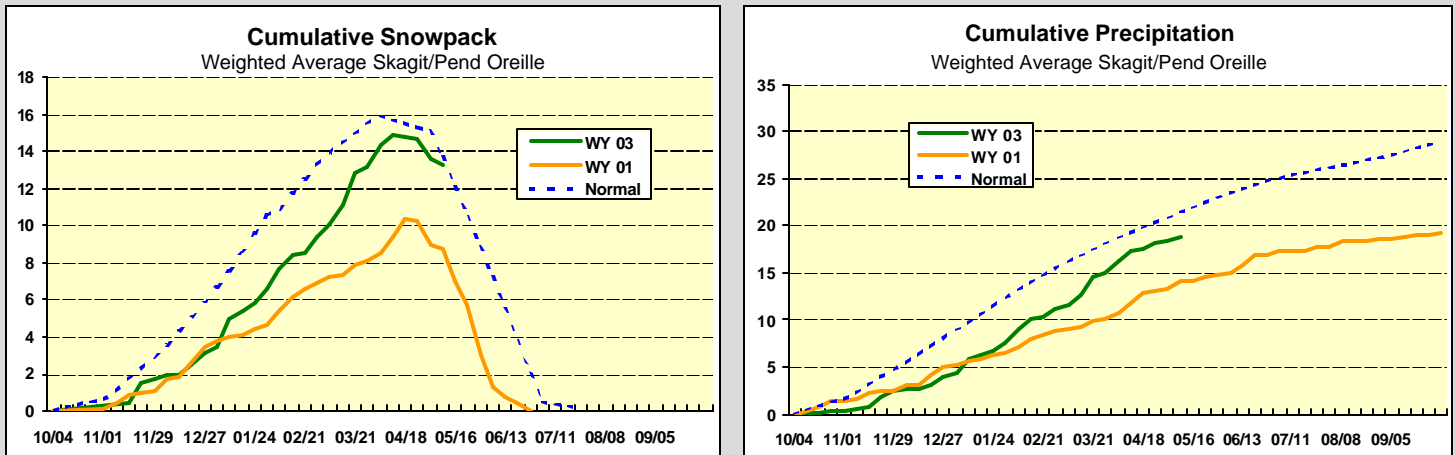
Even though the spring runoff is expected to be only 78% of normal this year, thanks to careful operation at our Skagit project we have enough water to ensure refilling the reservoir and meeting our fish protection and generation needs next fall.

(continued on page 4)



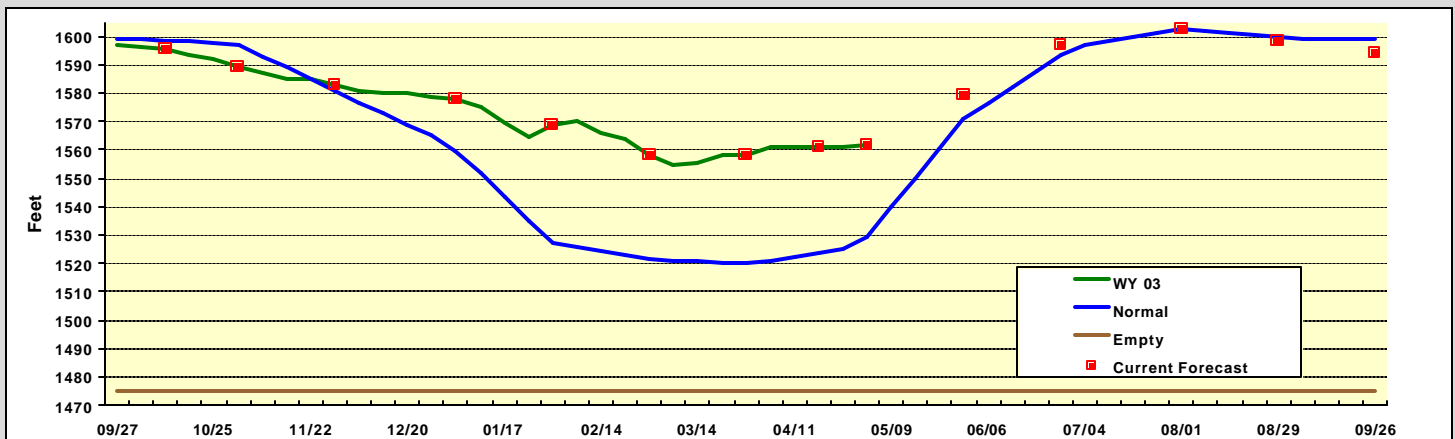
After a poor start, snowpack conditions in our Skagit and Boundary watersheds for the current water year have returned to 82 percent of normal (see page 2).

- Water Resources as of May 5, 2003 - Snowpack and Precipitation



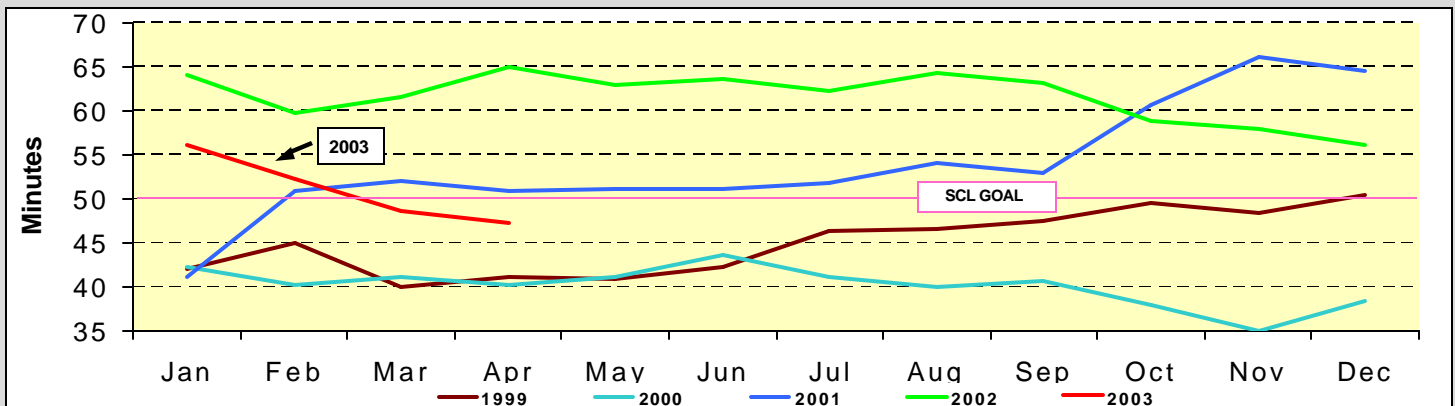
The 2003 water year (green line) has been helped significantly by recent wet, cool weather patterns. While we continue to expect a dryer-than-average year, conditions improved significantly in April. The 2001 record drought is shown by the tan line.

Ross Reservoir Levels



While in recent weeks the drought appears to be easing, we continue to operate our Skagit facilities at lower-than-maximum flows to ensure that Ross Reservoir levels remain high enough to meet license targets this summer.

- System Reliability - Average Customer Outage Minutes, January 1999 – April 2003



The System Average Interruption Duration Index (SAIDI) continued to improve in April, dropping to 47.2 minutes. Underground equipment outages made up over 50% of the month's outage impact, and all equipment outages combined made up over 75%. An early morning car/pole outage contributed over 20% to the monthly outage impact. For perspective, at this time last year, SAIDI was

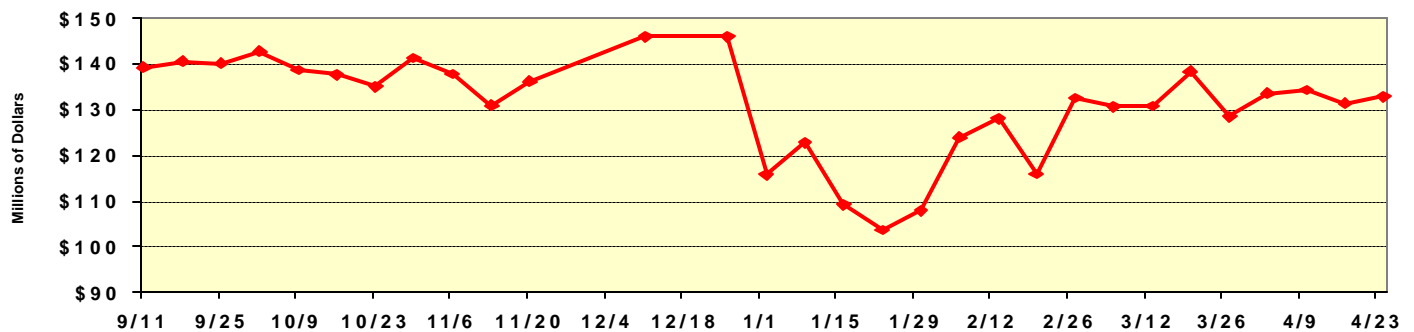
- Markets and Power Management -

Forward Power Prices, Current vs. Operating Plan

	High Load Hours			Low Load Hours		
	Operating Plan	Current	Change	Operating Plan	Current	Change
Jan 03	\$40	\$40	\$0	\$32	\$32	\$0
Feb 03	\$35	\$74	+\$39	\$30	\$70	+\$40
Mar 03	\$34	\$24	-\$10	\$28	\$21	-\$7
Apr 03	\$34	\$32	-\$2	\$24	\$30	+\$6
May 03	\$26	\$29	+\$3	\$16	\$24	+\$8
Jun 03	\$24	\$27	+\$3	\$16	\$23	+\$7
Jul 03	\$37	\$40	+\$3	\$25	\$33	+\$8
Aug 03	\$46	\$50	+\$4	\$31	\$37	+\$6
Sep 03	\$39	\$50	+\$11	\$27	\$38	+\$11
Oct 03	\$42	\$48	+\$6	\$31	\$38	+\$7
Nov 03	\$40	\$48	+\$8	\$30	\$39	+\$9
Dec 03	\$44	\$52	+\$8	\$35	\$45	+\$10

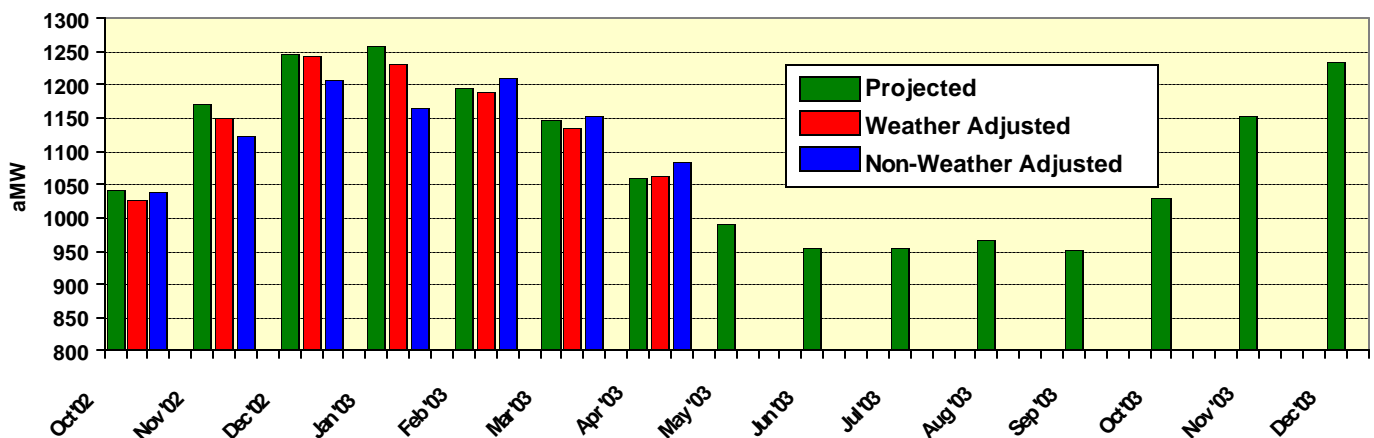
This table compares the forward prices for energy as of April 28, 2003 with the forward prices assumed in the October 2002 operating plan. Storage reserves of natural gas, a major fuel in electricity generation nationwide, are at an all-time low, leading to higher natural gas prices and higher electricity prices.

Market Value of 2003 Position



Flow projections stabilize as we advance through the water year, and we do not expect significant changes through year-end (Sept.). Changes in the value of the position from now on will largely be price driven.

Load History and Projections



In the early part of this year, we revised our load forecast to reflect poorer-than-anticipated economic conditions. The forecast has since tracked the weather adjusted load better; however, cooler-than-normal weather has kept demand a little higher than expected.

Bits and Pieces: News and Notes from City Light and the Utility Industry

- The former Seattle City Light Power Control Center at 157 Roy Street was dedicated by the Mayor as the Uptown Neighborhood Center. Steve Hagen, Real Estate Services manager, received a certificate of appreciation from the Mayor for his work on this project.
- Restoration Project Grants: Seattle City Light received two grants from the Washington State Salmon Recovery Fund Board: a \$200,000 grant for the design of the flood-plain reconnection project on the Tolt River; a \$170,000 grant for restoration on the Vandersar property on the Skagit River.
- Lynn Best, of Seattle City Light's Environment and Safety Division (right, on the Skagit River) was elected Chair of the Executive Committee overseeing For Sake of the Salmon, a multi-stakeholder group working for salmon restoration and protection. This is the first time a utility representative has been chosen as Chair, indicating the respect and trust that we have earned in the area of salmon restoration.
- East Pine Street Substation: Notice-to-proceed for long lead-time materials was given on April 4. On-site work will start in May with project completion by October 20, 2003. This project will help meet current and expected capacity needs in this area.
- U.S. District Judge James Redden's ruling (on May 7, 2003) found the salmon-restoration plan, set forth by NOAA Fisheries in December 2000, falls short because it relies on efforts to save the fish that are too uncertain, a violation of the federal Endangered Species Act.
- Power companies, after two decades of losing ground, may be on the brink of saving billions of dollars in the operation of their dams while regaining greater control of rivers from New England to the Pacific Northwest. Terms of the utilities' triumph, if it comes to pass, are contained in a little-noticed provision of the voluminous energy bill now before



the Senate. The bill is supported by the Bush administration and has cleared the House.

- Since 1973, no new nuclear plants have been completed in the US. But new legislation expected to clear the Senate within the next few weeks could change this. If approved, the legislation would provide federal loan guarantees for up to half the cost of building as many as six new nuclear power plants.
- The U.S. Department of Energy's inspector general will investigate whether the Federal Energy Regulatory Commission compromised a pending Snohomish County utility case during a teleconference call with Wall Street analysts. The preliminary investigation comes at the request of U.S. Sens. Maria Cantwell, D-Wash., and Joe Lieberman, D-Conn., who accused FERC Chairman Patrick Wood III and Commissioner Nora Mead Brownell of divulging how they might vote in the Snohomish County Public Utility District's suit against Morgan Stanley Capital Group.
- The Justice Department yesterday approved an agreement allowing the Bonneville Power Administration (BPA) to terminate nearly \$500 million worth of high-priced power contracts with bankrupt Enron. Officials at the Portland-based utility say the deal should save Northwest rate payers close to \$200 million and lower a projected 15 percent rate increase by about 2 percentage points.
- Two new local alternative generation projects are underway. King County and federal officials yesterday kicked off construction of the \$22 million project at the county's South Treatment Plant in Renton. The Tulalip Tribes, local farmers, conservationists and other groups have signed an agreement to build a plant that would harness the power of methane and convert cattle waste into energy that will fuel generators that produce electricity. If the Snohomish County project pans out, Tulalip leaders hope it will serve as a model for tribes and farmers throughout Washington.
- In the wake of the state's energy market meltdown, a bill that would reregulate the California electricity market overcame the objections of energy companies and utilities to pass its first legislative hurdle Tuesday, May 6.

UPCOMING COUNCIL AGENDA ITEMS

May 15: Energy and Environmental Policy Committee:

- Ordinance authorizing the loan of funds from the City's Consolidated (Residual) Cash Portfolio, or its participating Funds, to the Operating Cash Account within the Light Fund (Jim Ritch)
- Ordinance authorizing the issuance and sale of municipal light and power revenue bonds (Jim Ritch)
- Update on City Light Green Power Program (Joan Walters)
- Amendment to City Light Contract with Acres International Corporation for Dam Monitoring (Dana Backiel)